

OVERVIEW OF GENERAL FUND REVENUE

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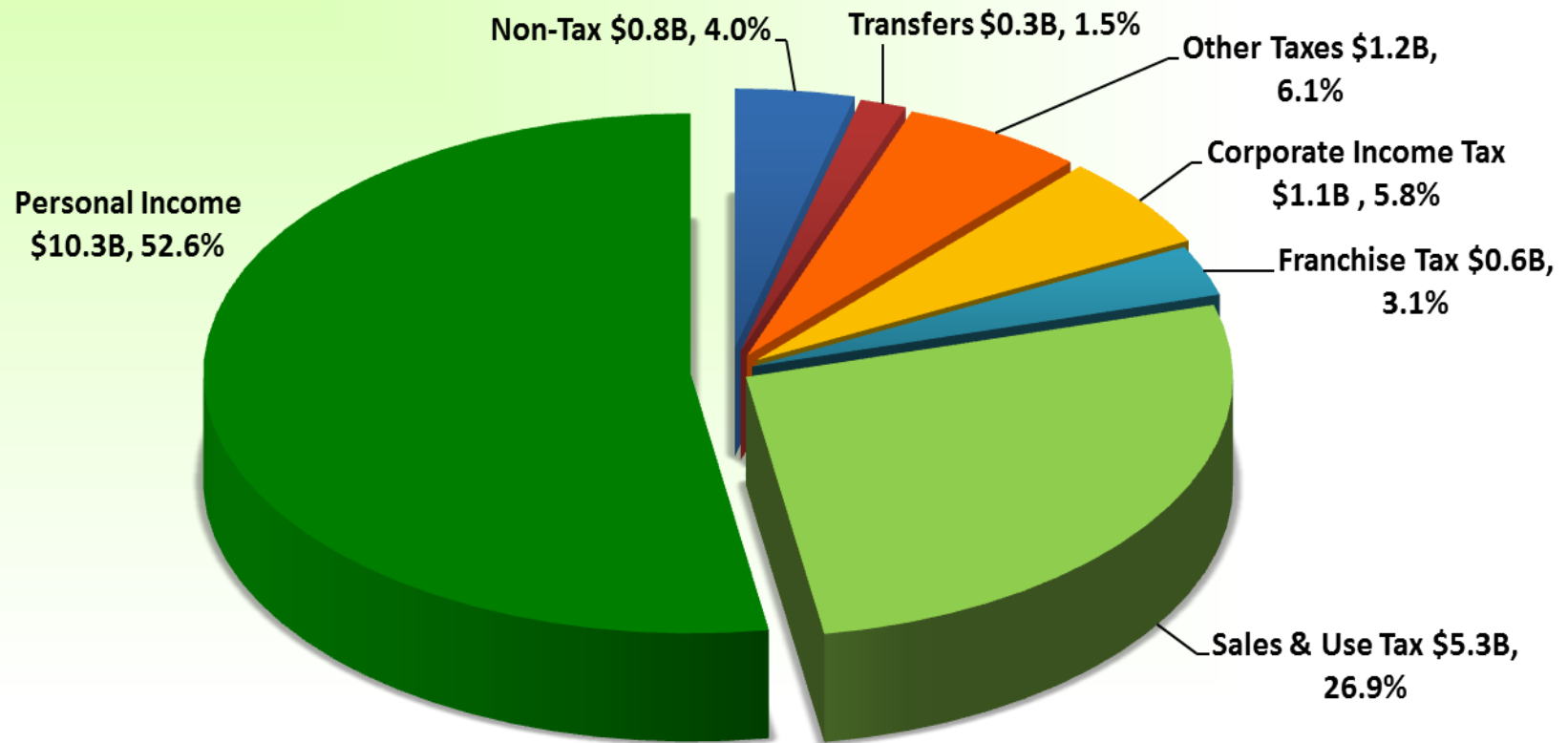
Presentation Outline

- General Fund Revenue Sources
- Consensus Revenue Forecast
- Current Revenue and Economic Trends
- Potential Risks and 2013-15 Forecast

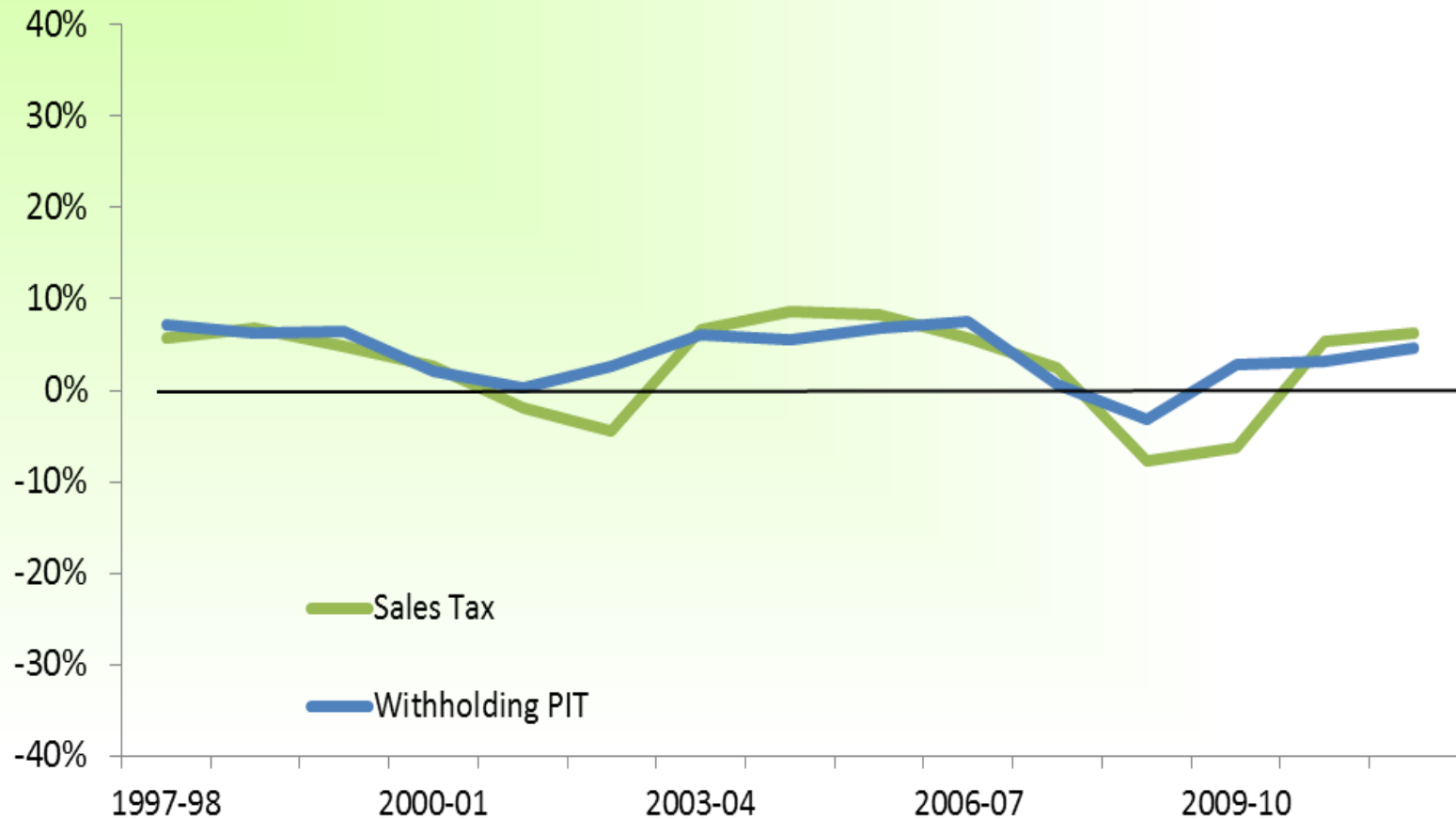
General Fund Revenue Sources



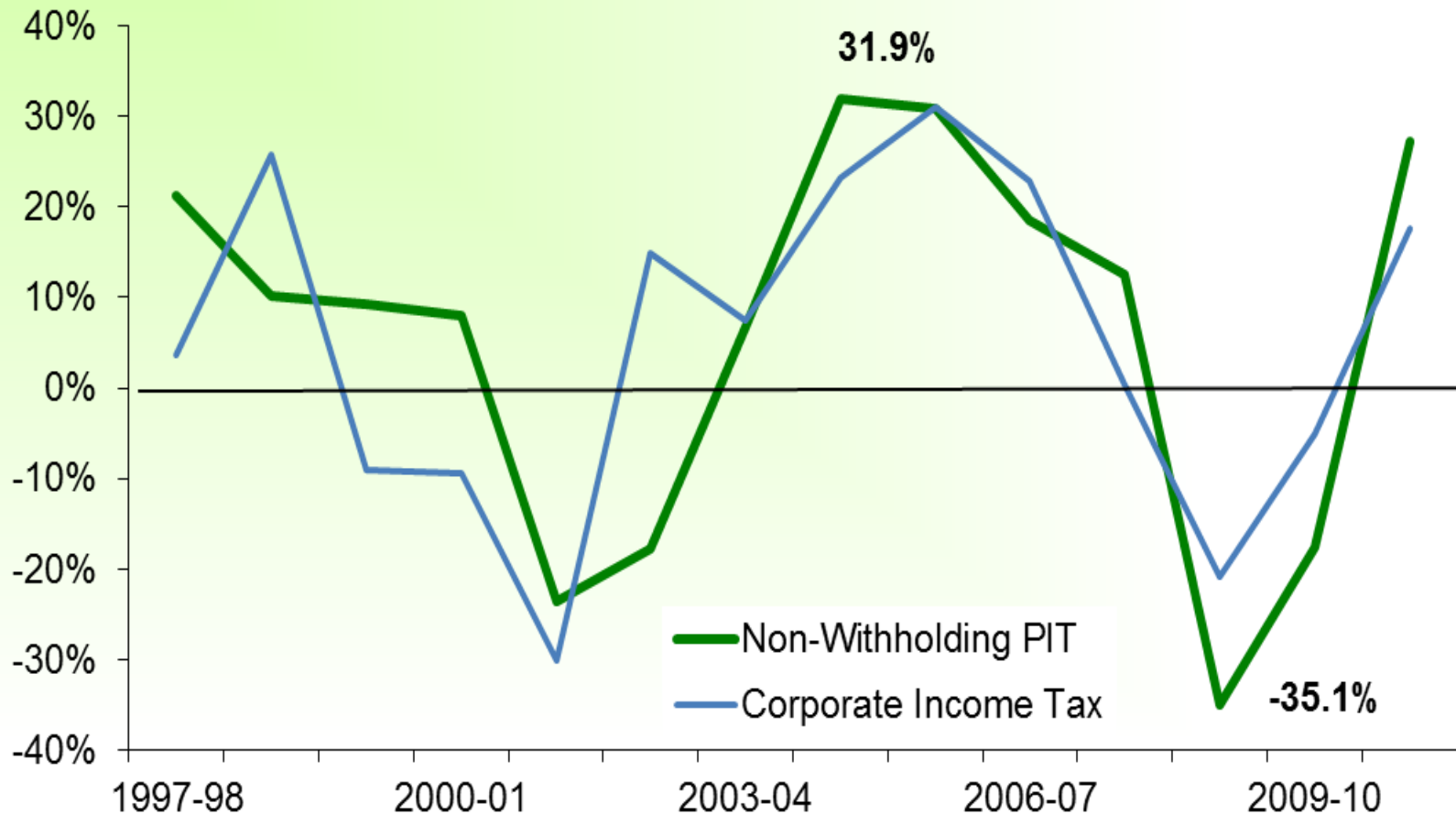
State General Fund, FY 2011-12



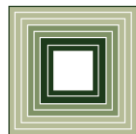
Stable Sources of Revenue



Volatile Sources of Revenue



Consensus Revenue Forecast



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Consensus Revenue Process

- Statutory Guidelines do not address the budget revenue forecast
- Since the 1990s, a consensus forecast has been used
- Fiscal Research and the Office of State Budget and Management develop forecasts independently

Consensus Revenue Process

- Prior to release of Governor's biennial budget, forecasters meet to develop a consensus forecast
- In early May, after April receipts have been recorded, the legislature and/or the Governor can request a revised consensus forecast

Consensus Revenue Process

- A small informal revision may be warranted before final passage of the budget
- In even-numbered years a consensus revision to the second year biennium forecast takes place in early May

Consensus Forecast: FY 2012-13

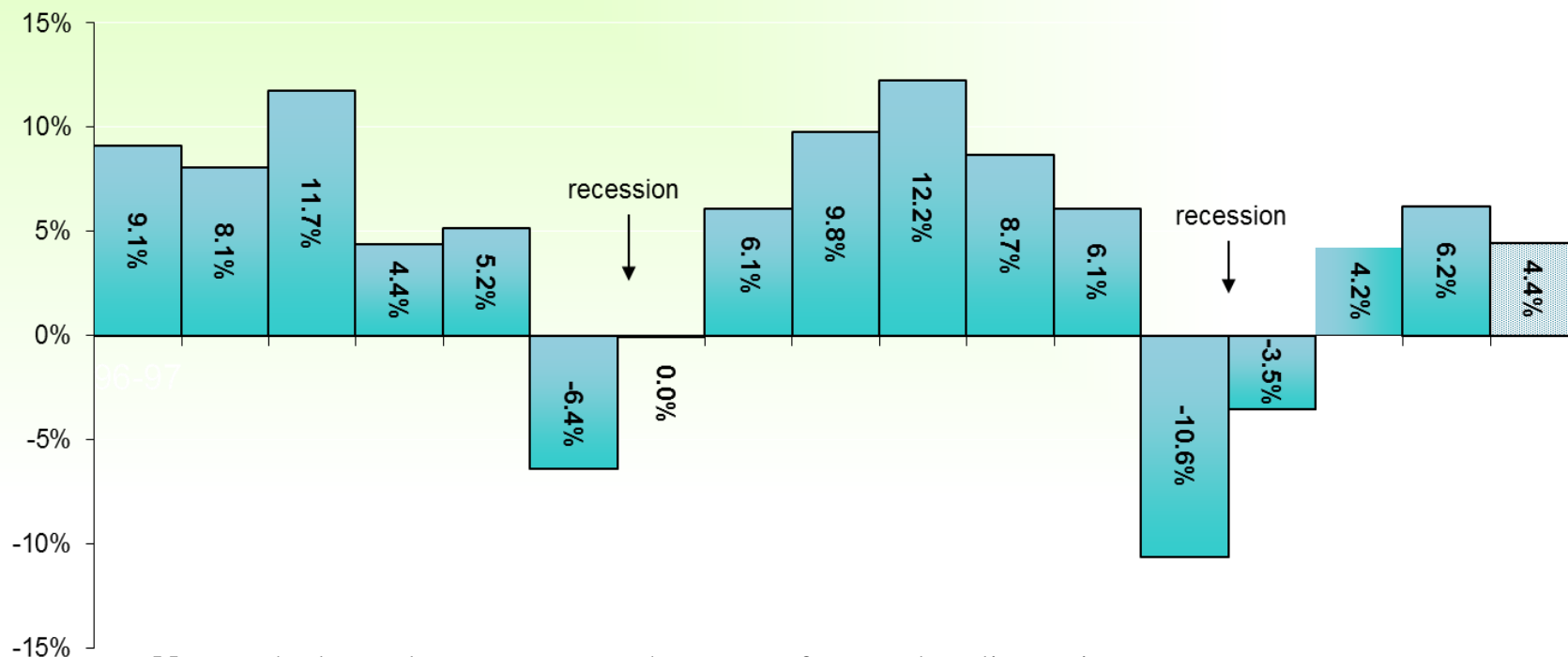
Baseline growth forecast (previous year in parentheses)

- Sales Tax 3.7% (6.2%)
- Personal Income 4.7% (5.4%)
- Corporate Income 4.1% (11.6%)
- Total General Fund 4.4% (6.2%)

Baseline Tax Revenue

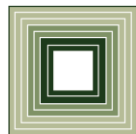
The Great Recession's impact on State revenues can be clearly seen from the economy-based growth rates. Only a modest rebound afterwards given size of the drop in revenue.

Baseline Tax Revenue Growth, FY 1996-97 to FY 2012-13



Note: The last column represents the current forecast baseline estimate.

Current State Revenue and Economic Trends



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How Do 2012-13 Revenues Look So Far?

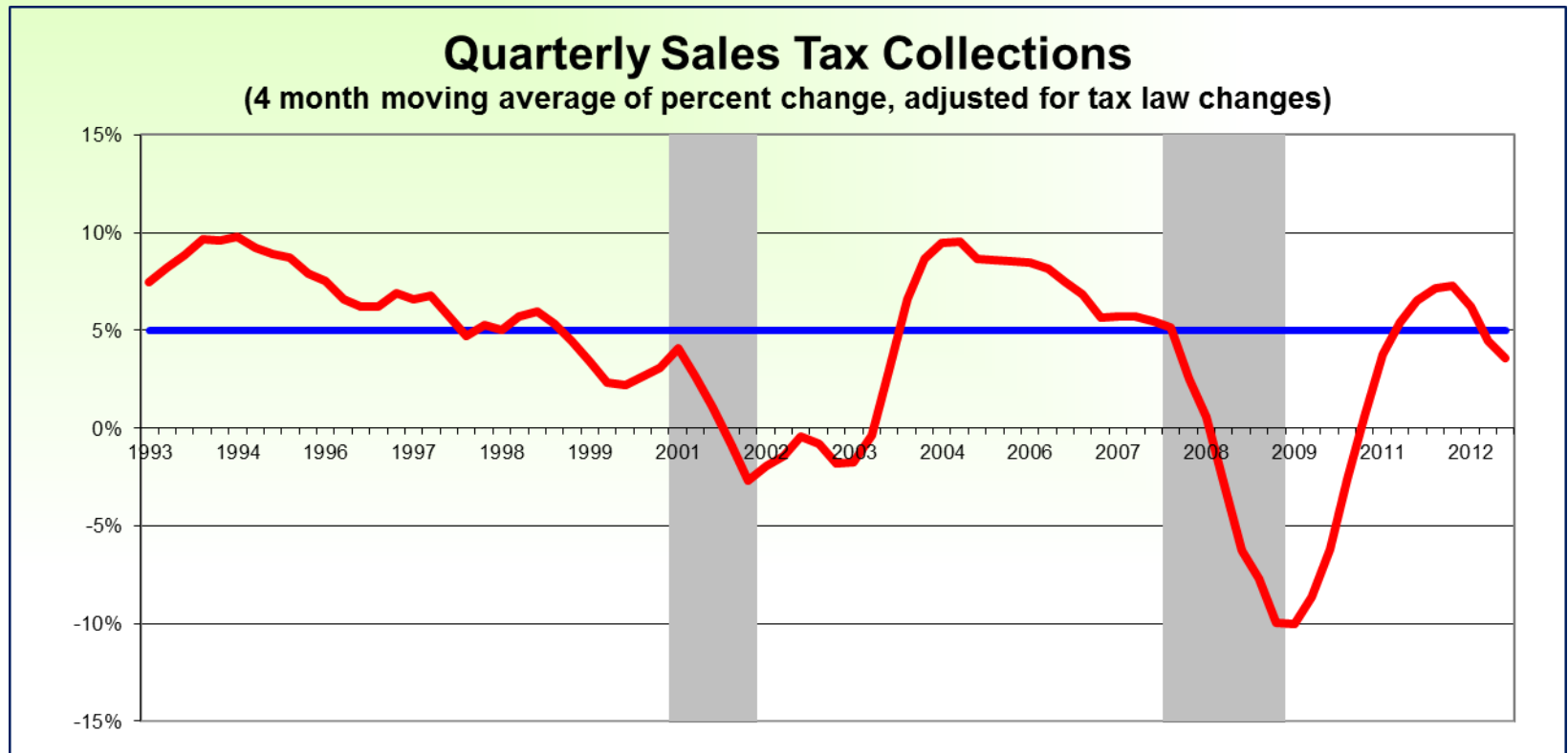
- Collections through December are meeting the \$9.8 billion target.
- Key revenue sources are essentially on target.
- **Caveat:** Most of the forecast risk occurs in second half of the fiscal year.
 - 2012 Final Payments and Refunds, plus 2013 Estimated Payments in April and June

How Do 2012-13 Revenues Look So Far?

- Net withholding income tax is up 4.4%.
- Sales tax collections are a little behind target.
 - Will not know how holiday sales affected collections until January numbers are tabulated.
- Baseline (tax-adjusted) sales collections for the second quarter of the fiscal year were up 3.2%.
 - This was below the 3.7% target.

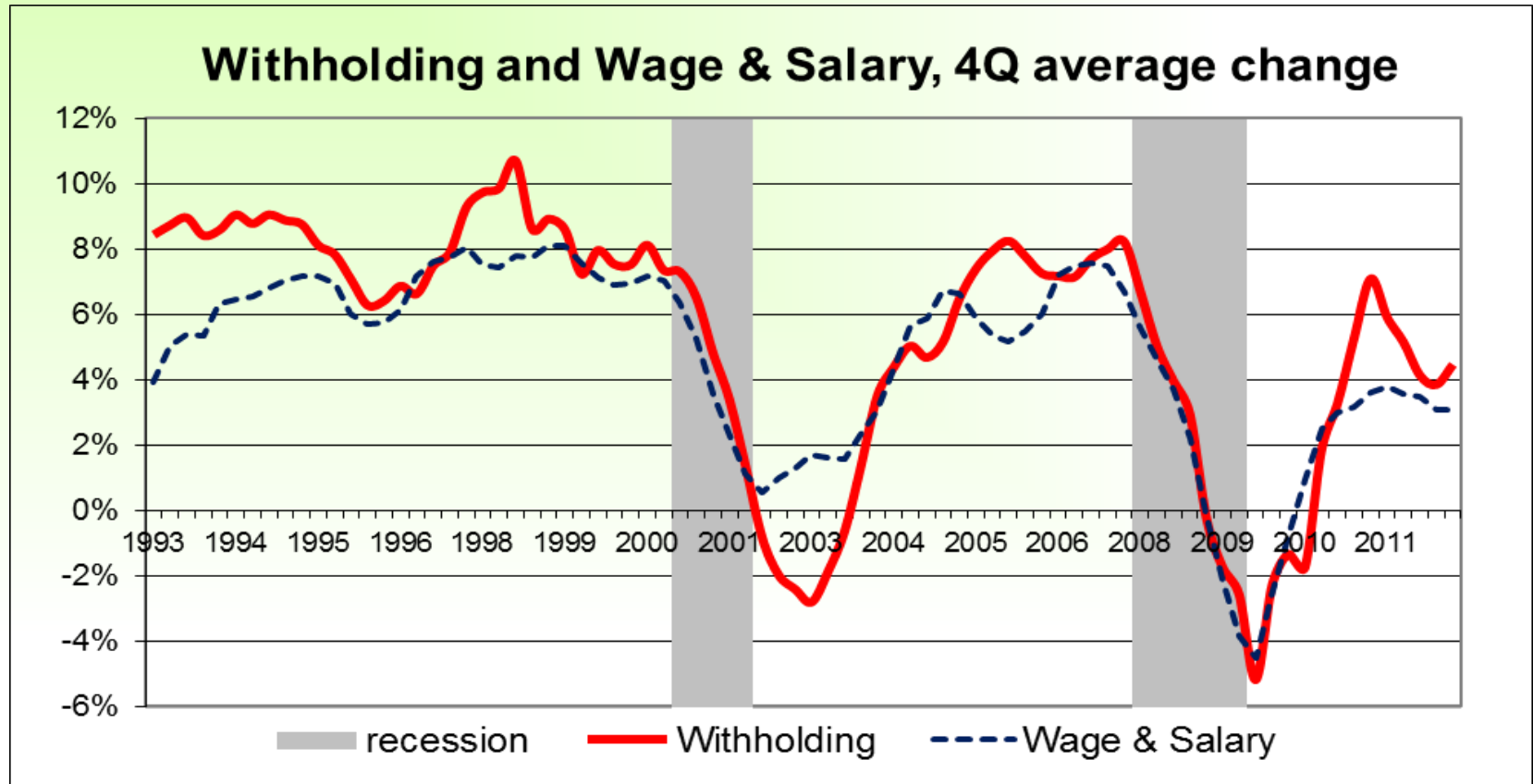
Tracking Economy-Based Collections

The consensus forecast expects baseline Sales Tax growth for FY 2012-13 to be 3.7%, well-below last year's growth. Any further slowdown in collections will put pressure on the second-half of the fiscal year to meet this expectation.



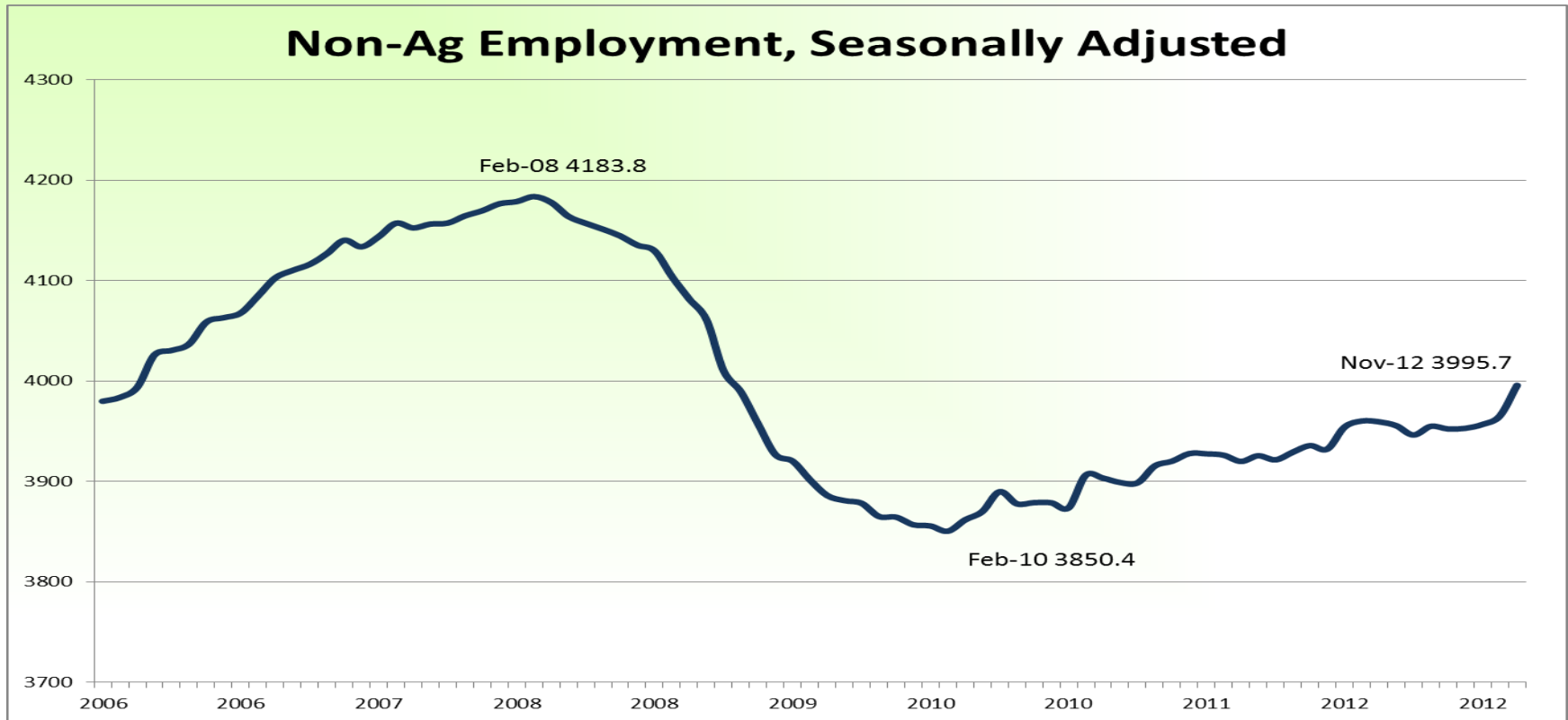
Tracking Economy-Based Collections

Personal Income withholding growth began to moderate in Q3 and Q4 of 2012.



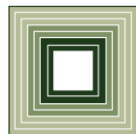
Key Economic Trends

Non-Ag employment well-below peak in February 2008. Employment has increased by 145,000 jobs since the trough in February 2010.



Source: NC Employment Security Commission

Risks to Revenue Forecast



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Risks to Revenue Forecast

Since the revenue forecast in May, the State's economic forecast has been downgraded.

<u>FY 2012-13 Forecast</u>	<u>April</u>	<u>December</u>
Gross State Product (nominal)	5.6%	4.7%
Wage & Salary Income	5.4%	3.6%
Employment (Non-Ag)	1.1%	1.0%
Unemployment Rate	9.1%	8.9%
Retail Sales	6.1%	5.2%

Risks to Revenue Forecast

- **Risk Factors**

- Global demand improving but remains weak
 - Eurozone
 - China
- \$50k business exemption adds volatility to second-half risks – estimated \$460 million reduction in revenue
- Contraction US GDP growth in 4th quarter of 2012
- Fiscal Cliff
 - ~~Cross the board tax increases~~ – *resolved*
 - Spending cuts

Risks to Revenue Forecast

- **Upside Risks –**

- US Housing improving, poised for rebound
- Employment stabilizing
- Service sector gaining strength
- Leading indicators point to improvement
- Investment and hiring decisions wait it out

Bottom line: Our economy though stronger than last year, still cannot withstand mild economic shocks.

2013-2015 Biennium Outlook



- Steady improvement through 2013
- Employment growth accelerates into 2014
- NC outpaces US economic growth going into 2015
- Global Conditions require added caution

Key Points

- General Fund revenue is on target.
- Sales tax collections and withholding income tax are slightly behind projections.
- Volatile second-half has added uncertainty with new \$50k business exemption.
- NC economy progresses throughout 2013 – out-paces US by end of 2014.
- Global economic uncertainty means a very cautious biennium forecast is warranted.